



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE DR KENNETH KAUNDA DISTRICT MUNICIPALITY ECONOMIC AGENCY SOC LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the separate financial statements of Dr Kenneth Kaunda District Municipality Economic Agency SOC Limited set out on pages 73 to 101, which comprise the separate statement of financial position as at 30 June 2013, the separate statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising of a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008), and for such internal control as the accounting authority determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Basis for qualified opinion

Operational fees

6. I was unable to obtain sufficient appropriate audit evidence for project related cost included in operational fees as documents relating to these costs were lost by the entity during October 2012. I was unable to confirm these costs by alternative means. Consequently, I was unable to determine whether any adjustments to operational fees of R3 665 236 (2012: R5 708 819) and unspent conditional grants of R4 531 035 (2012: R7 509 167) disclosed in notes 24 and 10 respectively in the financial statements were necessary.

Qualified Opinion

7. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the separate financial statements present fairly, in all material respects, the financial position of Dr Kenneth Kaunda District Municipality Economic Agency SOC Limited as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the Companies Act.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular expenditure

9. As disclosed in note 21 to the financial statements, irregular expenditure of R1 052 593 was incurred in the current year and irregular expenditure from prior years of R651 277 has not yet been dealt with in accordance with section 32 of the MFMA.

Going concern

10. Note 18 to the financial statements indicates that the Agency incurred a net loss of R 654 739 during the year ended 30 June 2013 and, as of that date, the municipal entity's current liabilities exceeded its total assets by R 654 619. These conditions, along with other matters as set forth in the note, indicate the existence of a materiality uncertainty that may cast significant doubt on the entity's ability to operate as a going concern if the parent municipality do not fund future operations.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary information does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 21 to 57 of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).
16. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

18. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

19. Of the total number of 20 targets planned for the year, 12 of targets were not achieved during the year under review. This represents 60% (>20%) of total planned targets that were not achieved during the year under review. This was as a result of the funds not released by the Council hence the Agency was unable to fulfil the planned targets.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the municipal entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Companies Act

21. The Board of Directors failed to hold an Annual General Meeting as required by the Articles of



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Association due to inadequate board representation as required by section 66 of the Companies Act.

Strategic planning and performance management

22. The entity did not ensure that annual performance objectives and indicators were established by agreement with the parent municipality and included in the municipal entity's multi-year business plan, as required by section 93C (a) (iv) of the MSA..

Annual financial statements, performance and annual reports

23. The financial statements submitted for audit were not in all material respects prepared in accordance with the requirements of section 122 of the MFMA. Material misstatements of commitments, unspent conditional grants, trade and other payables from exchange transactions, employee costs, irregular expenditure and accumulated surplus identified by the auditors were subsequently corrected.
24. The 2011/12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127 (2) of the Municipal Finance Management Act.
25. The annual performance report for the year under review does not include a comparison of the performance with the previous financial year development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 (1) (b) of the Municipal Systems Act.

Internal audit

26. The internal audit did not function as required by section 165 (2) of the MFMA, in that it did not comply with section 95 (c) (i) of the MFMA, Municipal Planning and Performance Management Regulation 14 (1) (b) (i), (ii), (iii), Municipal Planning and Performance Management Regulation 14 (1) (c), section 45 (1) (a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14 (1) (a), therefore was not in a position advise the accounting officer and report to the audit committee on matters relating to performance management.

Procurement and contract management

27. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19 (a).
28. Invitations for competitive bidding were not always advertised for a required minimum period of fourteen three days, as required by SCM regulation 22 (1) & 22 (2).

Performance management

29. Performance bonuses were paid to employees who did not have signed performance agreements for the previous period to which the bonus related, as required by the Guidelines for the Development of a PMS Policy Framework in Municipalities.
30. Employees did not sign performance agreements for the previous performance period which was paid during the current period, as required by the Guidelines for the Development of a PMS Policy Framework in Municipalities.
31. Upper limits of the salary scales were not updated timely for all employees, as required by section 89 of the MFMA.



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

32. Performance bonuses were approved by the Board of Directors without the consent of the parent municipality, as required by section 89 of the MFMA.

Expenditure management

33. The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 95 (d) of the Municipal Finance Management Act.

Internal control

34. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

35. Insufficient steps were taken during the year to retrieve documentation lost during the previous accounting period which hampered the investigation as set out in section 32 of the MFMA. Therefore it was not possible for the Council to condone the irregular expenditure committed.

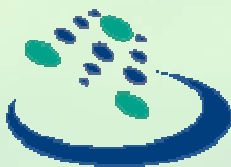
Governance

36. The organisation did not identify risks to the achievement of its outcome and impact across the entities objective. Therefore an adequate response and the management thereof to accept, avoid reduce or share the risk was not formulated, which included the absence of a fraud prevention strategy.

Auditor-General

Rustenburg

29 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence